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OFFICE OF THE DIRECTOR

Date: 14 December 81

TO: Mr. Casey

FROM: Debbie

SUBJECT: Cabinet Council on Commerce and Trade Meeting

REMARKS:

The Cabinet Council on Commerce and Trade is meeting on Wednesday, 16 December, at 0845--you are invited, per Dennis Kass' office. Two items of interest to CIA are Landsat and High Technology. Meeting will be held in Roosevelt Room of White House.

Will attend_____

Will not attend_____

ACTION

Drw, FYI

STAT

(1) Technology

(2) Landsat

STAT

STAT

Not referred to DOC. Waiver applies.

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U.S. DEPARTMENT OF COMMERCE
Under Secretary for International Trade

12/10/81

Executive Registry
81-9248

To: The Honorable
William Casey

From: Lionel H. Olmer

Bill -

Attached is an advance copy of what will be briefed to the CCCT by me next week. You may find it useful to put in an appearance in order to comment on the way in which this study compliments your own efforts.

Attachment

Not referred to DOC. Waiver applies.

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THE SECRETARY OF COMMERCE
Washington, D.C. 20230

December 14, 1981

MEMORANDUM FOR: MEMBERS OF THE CABINET COUNCIL ON COMMERCE AND TRADE (CCCT)

FROM : Malcolm Baldrige, Chairman, Pro Tem
Cabinet Council on Commerce and Trade

SUBJECT : STUDY OF THE COMPETITIVE POSITION OF U.S. HIGH TECHNOLOGY INDUSTRIES

ACTION FORCING EVENT : Threat of Foreign Competition to the Viability of Key U.S. High Technology Industries and Potential Impacts on the U.S. Economy and National Security.

U.S. high technology industries contribute significantly and disproportionately to U.S. export performance and to growth in productivity and output. The decline in U.S. technological and industrial leadership is threatening the viability of key U.S. technology-intensive industries. Loss of U.S. leadership in these industries has significant political and national security consequences. High technology industries, of themselves, are an important source of employment. The application of recent advances in the microelectronics sector to information processing and industrial automation, is crucial to improving U.S. productivity growth. U.S. technological pre-eminence in key sectors is crucial to the development of advanced weaponry. Moreover, domestic production capacity in a number of high technology sectors is necessary if the U.S. is to exercise trade-related foreign policy leverage, ensure defense related surge capability, and minimize supply disruption risks.

Increased competition from foreign producers has already led to overcapacity and severe unemployment in the automotive and steel sectors and to the virtual elimination of U.S. consumer electronics production. Foreign competition, by reducing the profit margins and business expectations of U.S. producers, is constraining research and development spending and capacity expansion in industries judged crucial to future U.S. industrial and military strength. The semiconductor industry may be the most seriously affected, but U.S. leadership in the computer and telecommunications industries is also being challenged.

This trend is manifest in the declining share of the U.S. in the trade of technology-intensive manufactured products.

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Trade Balances in Technology-Intensive Manufactured Products
Excluding Automotive Products, 1971-75 and 1976-80, Cumulative in $ Billions

	United States	West Germany	Japan
1971-75 (cum.)	+114.7	+102.5	+71.5
1976-80 (cum.)	+196.0	+188.5	+180.2

Trade Balances in Technology-Intensive Manufactured Products
Including Automotive Products, 1971-75 and 1976-80, Cumulative in $ Billions

	United States	West Germany	Japan
1971-75 (cum.)	+ 77.5	+134.2	+ 37.7
1976-80 (cum.)	+154.0	+259.9	+275.1

STATEMENT OF ISSUES

Given existing U.S. Government policies, can U.S. high technology industries maintain a leading position in the face of increasingly strong foreign competition?

Are there serious economic and national security consequences from a loss of technological leadership, and ultimately, industrial viability in technology intensive sectors?

What would be appropriate U.S. Government responses if one or more U.S. high technology industries face a significant threat to its technological leadership or economic viability?

SCOPE

The study will assess the ability of key U.S. high technology industries to maintain competitive viability in the currrent and projected international economic environment. It will focus on an examination of the underlying economic and political factors judged crucial to the development, innovation, and production of high technology products. This section will be preceded by a review of conditions facing key high technology industries and followed by an examination of the economic, national security, and foreign policy implications of a further loss in U.S. technological leadership. A final section will evaluate U.S. policy implications if it is judged that one or more of our high technology sectors are facing significant threats to their future economic viability.

The short deadline precludes an indepth industry by industry analysis. Rather, the study will review the degree to which foreign competitors challenge key U.S. industries, and the ability of these industries to maintain or restore competitive eminence. This review will compare the trends in

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technological developments in both U.S. and foreign technology-intensive industries, as well as the relative ability of U.S. and foreign firms to translate these developments into competitive products. It will also assess the importance of high technology industries for overall U.S. economic performance. The industries surveyed will be chosen on the basis of their significance to the economy, the advanced state of the technology involved, and their importance to national security. These industries will include semiconductors, aerospace, computers, telecommmunications, industrial control systems, machine tools, automobiles and steel.

The study will examine the likely consequences of trends in technology-intensive industries for economic growth, productivity, and foreign trade. In addition, it will address the implications of these same trends for U.S. national security and foreign policy. The study will assess the extent to which U.S. military procurement may become dependent upon foreign sources for critical and technology, and consequences for surge potential of U.S. industry.

The main thrust of the analysis will be to examine those factors, as demonstrated by the industry by industry review, which influence the ability of U.S. high technology firms to operate in an increasingly competitive international environment. In addressing research and development efforts, the study will examine factors pertinent to academic research, industrial research and development, government research and development and the interaction between these three sources. To assesss the comparative ability of U.S. and foreign industries to bring the technologies to market, the study will review the relative costs and availability of capital, their influence on capital formation, and international differences in business behavior (including technology transfer policies). The study will compare U.S. and foreign labor costs, labor-management relations in high technology industries, availability of specially skilled employees, comparative productivity, and management techniques.

The study will identify key foreign governmental policies designed to foster and protect their own high technology industries. The study will identify, where feasible, practices of foreign governments which interfere with the operation of normal market forces, for example, preferential tax policies or interventions in capital markets.

The study will review the government/high technology sector relationship in Japan, Germany, the United States and other key countries. Pertinent factors include government financial support, including R&D funding, the effect of regulation and tax policies on performance, the influence of antitrust policies, and the government role in regulating market access. The study will also compare formal and informal trade barriers, implementation of the MTN codes, the effect of foreign subsidization on third market penetration, and U.S. export disincentives.

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The last and final section of the study will examine the implications for U.S. policy of perceived problems in the international industrial environment that affect the growth of high technology industries. If the study determines that one or more segments of our high technology sector faces a significant threat, possible U.S. policy responses, both domestic and international, will be identified.

STUDY ORGANIZATION

The study will be organized to ensure quality results and speed of completion. These criteria can best be met by assembling a small Working Group (about 5 persons) of the highest caliber experts on high technology industries and the economy chosen from among the various agencies within the U.S. Government. The staff of the working group will be detailed from their agencies to work full time on the project.

The working group will take its mandate from the CCCT and report directly to it. Central staff direction will be provided by a single person designated by the CCCT, with proven expertise in the area and the ability to devote almost full time to the project.

Agencies with interest and responsibility in the areas covered by the study will be asked to participate by making available to the Working Group, as needed, their data, resources, analyses of issue and full cooperation. These agencies will be requested to appoint a contact person who can coordinate assistance from the agency to the Working Group. The Working Group may convene meetings with interagency representatives, to provide guidance on policy issues affecting the study.

The Working Group may also draw on industry and academic experts as necessary to review the economic and technological analyses for the draft report. The draft report will be circulated for interagency comment prior to its formal presentation to the CCCT. The draft report will be completed within 120 days of CCCT initiation.

Attachment

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OUTLINE

STUDY OF THE COMPETITIVE POSITION OF U.S. HIGH TECHNOLOGY INDUSTRIES

I. INDUSTRIAL SECTOR REVIEW

A. HIGH TECHNOLOGY INDUSTRIES

1. Information Processing Systems and Services
   a. Semiconductors
   b. Computers
   c. Telecommunications
   d. Software
   e. Data Base Development
2. Civil and Military Aircraft
3. Civil and Military Space Systems and Services
4. Scientific and Instruments Control Systems
5. Industrial Automation

B. HIGH TECHNOLOGY APPLICATIONS IN MATURE INDUSTRIES

1. Automotive Products
2. Specialty Steels and Other Strategic Metals
3. Shipbuilding
4. Machine Tools

C. EMERGING INDUSTRIES

1. Biotechnology
2. Marine Resources
3. Advanced Energy Technology

II. ECONOMIC, NATIONAL SECURITY AND FOREIGN POLICY CONSEQUENCES OF U.S. COMPETITIVE POSITION

A. ECONOMIC CONSEQUENCES

B. NATIONAL SECURITY CONSIDERATIONS

C. FOREIGN POLICY CONSIDERATIONS

III. KEY VARIABLES AFFECTING COMPETITIVENESS

A. COST AND AVAILABILITY OF FINANCIAL CAPITAL

B. HUMAN CAPITAL

C. ROLE OF NATIONAL GOVERNMENTS

D. TECHNOLOGY TRANSFER POLICIES

E. INDUSTRIAL ORGANIZATION

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IV. U.S. POLICY IMPLICATIONS

A. BACKGROUND

B. U.S. GOVERNMENT DOMESTIC POLICY IMPLICATIONS

1. Macroeconomic policies
2. R&D policies
3. Trade policies
4. Investment policies
5. Science and technology policies

C. U.S. GOVERNMENT INTERNATIONAL POLICY IMPLICATIONS

1. Defense rationalization policies
2. Trade policies
3. Investment policies
4. Technology transfer policies
5. International science policies

V. STUDY FINDINGS AND RECOMMENDATIONS

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